Affordability of A High-Quality Education System

The Context

Historically, public schools in California and the United States have been funded primarily by local property taxes, with the actual tax rates determined locally. This local determination, however, led to significant differences in resources available to different school districts throughout the states, depending on the relative value of the property within the districts. Over the past three decades, courts have issued various orders aimed at equalizing school funding. The underlying assumption behind these efforts is that there is a clear relationship between the amount of money available and the quality of education provided to students.[51] Research suggests, however, that it is just as important to consider how resources are used as it is to determine what resources are available.[52]

Modifications of public school financing systems, particularly those prompted by court orders, have sought to 'level the playing field' by invoking equal protection clauses in state constitutions. These constitutional provisions have been used to establish the fact that state government has ultimate responsibility for assuring that all students have equal access to educational opportunities and hence life chances.[53] The 1968 *Serrano v. Priest* decision was one of the earliest of these court decisions, requiring California to finance its public schools in a way that was more equitable for both taxpayers and students. The ruling focused on the base general purpose funds available to schools and did not require that all sources of revenue be equalized. The decision specifically excluded categorical funding from the base amounts to be equalized that derived from state and local sources. Categorical funding was exempted to enable districts to respond to special needs emanating from student characteristics or particular district circumstances. This ruling, and others that followed in California and other states, established an important principle: equitable funding does not necessarily mean equal funding.

This principle did not answer the question of what is an adequate amount of funding that should be provided to schools. California's implicit determinations of adequacy have been made primarily on the basis of historical expenditures, rather than on analysis of what schools actually need to provide equitable educational opportunities for all students. Many states, and key

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[51] See David and Lucille Packard Foundation, *The Future of Children: Financing Schools*, (1997)

[52] W. Norton Grubb and Luis A. Huerta, *Straw Into Gold, Resources Into Results: Spinning Out the Implications of the "New" School Finance*, Policy analysis for California Education, Research Series 01-1, (April 2000); P.A. Miniori and S.D. Sugarman, "Educational Adequacy and the Courts: The Promise and Problems of Moving to a New Paradigm," in H.F. Ladd, R. Chalk, & J.S. Hanson (Eds), *Equity and Adequacy in Education Finance: Issues and Perspectives*, (1999).

[53] EdSource, *How Much is Enough? Funding California's Public Schools*, (April 2000).

education stakeholders in California, have compared expenditures in their public schools with average expenditures reported by other states, or schools that are most similar to their own, as a rough gauge of the adequacy of their own funding. Expenditures per pupil or expenditures per unit of average daily attendance (ADA) are the two most frequently cited measures of adequacy of funding. The two approaches produce slightly different measures of adequacy; the first provides an overall measure of effort to support schools, while the second is more reflective of workload, by accounting for student attendance behavior and movement of families.

As originally conceived, categorical funds were supplemental funds allocated to schools above their basic general revenues, to meet special needs of students served and, to a more limited extent, particular school circumstances. It might logically be concluded that there would be a relationship between total resources received and schools serving high concentrations of special needs students. However, no clear relationship seems to exist between student characteristics and total school district revenue.[54] This fact appears to reflect a growing tendency among states and the federal government to earmark public funds for specific programs and services that have little or no relationship to student differences. These trends seem to have sparked frustration in many states about not only the amount of funding provided to public schools but also how that money is allocated.

Increasingly, states are recognizing that any effort to determine the adequacy of funding must first begin with a clear understanding of the educational and other goals that are to be accomplished. This concept of adequacy is based on a belief that how much funding is provided and how it is allocated should in some way be linked to expectations of student achievement and institutional performance. The standards-based approach to school reform, coupled with the current federal effort to promote school-level accountability for student achievement, has lent added impetus to operationally defining what constitutes an adequate base of funding. Conceptually, researchers have identified three steps to defining an adequate base of funding. The first step is to explicitly define the goals of an 'adequate' or 'high-quality' education. This step constitutes a complex undertaking since there are probably as many different goals for public education as there are people willing to offer an opinion. This step also requires state policymakers to identify which of those goals are appropriately something the public schools should be responsible for attaining and those which are affected by factors such as poverty and, therefore, are not reasonably within the ability of schools to control.

The second step is to identify the essential components of an adequate or high-quality education. This step is also complicated, because even those components that research indicates are strongly related to student achievement may have different outcomes when applied in different local communities. Nonetheless, states can be guided by the research that does point to certain elements as essential to effective teaching and learning. For instance, the quality and experience of teachers in schools is more strongly related to student achievement than is almost any other school-based factor. Expert subject-area knowledge, years of teaching experience, and knowledge of a variety of teaching strategies and learning styles are all measures of the capacity of teachers to provide high-quality education.

[54] EdSource, Op. Cit.

The third step is to attach a cost to these components: to determine how much money will be needed to actually implement the education system that is envisioned. This step, too, represents an elusive task, because of the absence of any strong relationships between the amount of money available and student achievement. This absence results from the fact that a host of factors beyond the amount of money available influence teaching and learning outcomes; school culture, family and cultural values, school policies and practices, and the skills of educational providers and administrators all influence student achievement and are not easily quantifiable.

This three-step process of determining the adequacy of resources is an important advance over historical approaches of allocating money on the basis of what is available annually or how far above or below the national average a state is. It also furthers the goal of accountability by explicitly acknowledging a link between what is expected from public schools and the resources provided to meet those expectations. Further, it enables state policymakers and taxpayers to consciously determine if they can afford to invest the resources needed to realize the education system they envision.

Similar to the concern about adequacy of funding for basic operations, there is a concern about the adequacy of school facility finance. There is a general belief that inadequate investment in school construction and modernization has resulted in a nationwide crisis, but that individual districts have fared relatively better or worse. Nationally, most states fund school construction and modernization through a combination of state and local resources. Locally, most school facilities are financed through voter-approved General Obligation bonds, financed by revenue from limited-term property tax increases. This practice has raised concerns about equity in many states, because of differences in assessed property tax values. In 1994, the Arizona Supreme Court ruled that reliance on local General Obligation bonds to finance school facilities was unconstitutional because it "created vast disparities in districts' ability to afford school construction, building maintenance, and equipment."[55] Arizona transferred responsibility for school finance from local school districts to the state in response to this court ruling. Similarly, a class action lawsuit has been filed in Colorado to overturn that state's system of school facility finance.[56]

California had to address the issue of the adequacy of state facility financing earlier than most states, partly because of sustained growth in its public schools, combined with the passage of Proposition 13 by California's voters in 1978. Prior to Proposition 13, California financed school construction and modernization primarily through locally approved General Obligation bonds. Proposition 13 eliminated the authority of local school districts and other local governments to set their own property tax rates and had the effect of shifting primary responsibility for financing school construction and modernization from local districts to the state. By 1984, it had become apparent that revenue from state bond issues alone was insufficient to meet the infrastructure needs of California's public schools. In response, voters passed a new initiative in 1984, Proposition 46, restoring the ability of local school districts to issue General Obligation bonds with two-thirds approval of local district voters; and two bills were enacted through the legislative process authorizing school districts to impose developer fees (AB 2929, statutes of 1986) and (Chapter 1451, Statutes of 1982), which authorized creation of

[55] Education Week, (May 22, 1996).
[56] American School and University, (April 2000).

special (Mello-Roos) financing districts to finance subdivision infrastructure, including new school construction.[57]

Public education also includes public colleges and universities. Issues of adequacy of funding and affordability are equally salient at the postsecondary education level but reflect the differing structures and missions of public postsecondary institutions. Community and junior college finance issues are most similar to those included in the foregoing discussion regarding funding for the K-12 public schools, in that the community colleges have historically derived much of their financing from local communities through property taxes. Many community college districts have been granted limited authority to levy local property taxes to partially finance basic college operations, with the balance of basic operations funded from a combination of state financing, other fund raising, student fees, and tuition charges. Variations in total property values have produced disparity in revenues generated from one local community to another and have prompted actions to give states a larger share of responsibility for providing adequate financing to meet basic operational needs.

Comprehensive state colleges and universities have historically received a majority of their operational revenue from a combination of state financing, student fees, tuition, and other revenue sources. In the case of research universities, a substantial source of the 'other' revenues has been state, federal, and private research grants, as well as gifts from alumni and other patrons. Enabling legislation and state constitutional provisions generally require or permit selective admissions of students to state colleges and universities, while granting much broader access to community colleges – particularly in California, which promises access to any adult who possesses a high school diploma or can benefit from instruction beyond high school.

Determining what constitutes adequate funding of public colleges and universities also requires progression through the three-step process of precisely defining the goals desired from public colleges and universities, determining the essential components for achieving those goals, and assigning a cost to those components. A further layer of complexity is added, however, in that state policymakers must also decide how much of those costs should be borne by the state and how much should be borne by students and their families through the form of mandatory fees and/or tuition charges. Since enrollment in public colleges and universities is not compulsory by law but instead entirely voluntary, most states subscribe to the proposition that students have an obligation to pay for a portion of their education in the form of tuition charges.[58] Need-based financial aid is usually made available to ensure that students who wish to attend college do not feel that choice has been denied them because of the perceived cost of attendance.

No state has yet developed and implemented an analytic approach to determining what is an adequate base of funding that should be provided to public colleges and universities. Most continue to rely on such proxies as state appropriations for higher education as a proportion of

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[57] Community Facility Districts (CDF's) often encompass only part of a school district and their creation is subject to the approval of two-thirds of the landowners within the boundaries of the proposed CDF.

[58] While California statute explicitly exempts state residents from paying tuition, it does require payment of mandatory fees that vary for the California Community College system, the California State University system, and the University of California. All three public systems are permitted to charge non-residents tuition, defined as the full cost of providing education, including cost of faculty salary and benefits.

total state appropriations for government operations, comparison of state appropriations for public higher education with appropriations reported by other states, and per capita expenditures on higher education. While these measures provide an indicator of how state funding compares to some other benchmark, they fail to answer the question of whether this level of funding is adequate.

In California and other states, estimates of steady future increase in enrollment demand are producing greater signs of stress in the financing of postsecondary education. Not only is there the question of whether states can afford to increase their investment in supporting the basic operations of public colleges and universities, states must also address the need for construction of new facilities and modernization of existing facilities. As with the problems of facility financing in public schools, states have assumed an increasing responsibility for financing of new construction and modernization of public colleges and universities, relying heavily on the issuance of General Obligation bonds. Facility costs are only partially correlated to enrollment demand estimates for public postsecondary education, because of the additional costs associated with the research facilities and graduate program needs of senior institutions as compared to the needs of community colleges – although these differences can be partially reduced by facility requirements of workforce preparation programs tied to local industry needs.

The issues of affordability and adequacy are different but related matters for all levels of public education. Central to each issue is the question of what goals are being pursued through public education institutions. These goals, in turn, define the components that are essential to attaining them and drive the costs that are associated with the envisioned education system. With respect to public schools, adequacy and affordability are entirely a question of public will to make the needed level of education investment. At the postsecondary education level, the question of what is adequate and affordable must be divided between what is adequate and affordable to the State and what is affordable to students and their families – a delicate task of balancing accessibility and cost. At all levels of education, state policymakers must consider how resources are used to promote student achievement, and then devise ways to make sure resources are directed to these practices – while avoiding heavy statutory prescriptiveness and extensive categorical allocation of funds.

California Today

California's public schools currently enroll nearly six million students, who have a variety of cultural and socio-economic backgrounds, learning styles, languages, and needs. Attendance is a no-cost option for all children who will reach age 5 by December 2nd of each year; and students are required to remain in attendance until the age of 18, or until they are at least 16 and have graduated from high school.

Approximately one-third of California's roughly 1,000 school districts are unified, encompassing kindergarten through high school; a little more than half of them are K-6 or K-8 districts, serving as feeders to high school districts. (Many unified and high school districts also offer adult education.) Many of these school districts are small in size: nearly a third serve fewer than 500 students; and, overall, close to half of the districts serve 1,000 or fewer students. In contrast, the

Los Angeles Unified School District serves more than 700,000 students and is nearly five times as large as the second largest district, located in San Diego. The smallest districts have only one school, or even one classroom, while Los Angeles has more than 700 schools.

All of these school districts, their elected governing boards, teachers, administrators, and other professional personnel are affected by a financing system controlled by the Legislature and Governor. California's public education system is supported primarily by state income and sales tax revenue, and revenue from local property taxes. This funding is supplemented by federal monies, revenue from the California State Lottery, and miscellaneous funds such as developer fees and contributions from a variety of sources. In 2001-02, an estimated $40.4 billion was invested in California K-12 education, with $28.8 billion coming from the state General Fund and the balance from local revenue.[59] The Legislature and Governor determine the state funding amounts annually, beginning with development of the Governor's budget that is introduced in January of each year. From initial introduction to adoption of a final budget at the end of the fiscal year (June 30 or later), a number of adjustments and political tradeoffs are made. These adjustments are influenced by requirements of Proposition 98, a constitutional amendment approved by voters in 1988 that prescribes a minimum portion of the total General Fund that must be committed to public schools each year and a complex formula for how additional allocations get counted in the minimum guarantee to public schools in future years.

Each school district has a historically derived revenue limit per unit of ADA, which determines the general purpose funds it receives from the State. Revenue limit funding provides the majority of income a district receives annually to fund its operations. The Legislature adjusts this amount in most years to provide a cost of living adjustment (COLA) to each district's revenue limit. Revenue limits, in their current form, were developed in response to the 1968 *Serrano v. Priest* court decision, which required California to reduce funding disparities resulting from unequal real estate wealth, permitting only a narrow band of variation. To determine the education budget, the Legislature adds state funds to local revenue, in amounts determined by multiplying each district's ADA times its revenue limit and subtracting from that amount the district's estimated local property tax receipts; the difference represents the amount of state funds needed to reach the district's revenue limit entitlement. A small number of districts generate property tax receipts that equal or exceed their revenue limits. These districts are called 'basic aid' districts, and they are allowed to retain all of their local revenue, even when it exceeds their revenue limit entitlements. In addition, they are entitled to receive $120 per student from the State that is guaranteed by the California Constitution.[60] In addition to their revenue limit allocations, all districts receive categorical aid of some type, from both state and federal sources. In most cases categorical aid is accompanied by regulations and reporting requirements to ensure that the money is spent on the students or on purposes for which it was granted. Some types of categorical aid, such as textbook money, are granted to all schools, while others require districts to apply for them. Some categorical funds are based on student characteristics, such as English language learners, while others are based on district circumstances, such as the need for transportation funds. Other types of categorical aid, such as for special education, require districts to provide some amount of base or 'matching' funds from their own general purpose revenues.

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[59] California Postsecondary Education Commission, *Fiscal Profiles 2001*, Commission Report 02-1, (January 2002).
[60] EdSource, *California's School Finance System*, (December 1999).

The balance of revenue to school districts comes from lottery funds and such supplemental sources as fees, cafeteria food sales, money for debt repayment, interest on reserves, and successful grant applications. Since 1990-91, lottery funds have been generating between $110 and $120 per student per year for districts.

The actions of California voters in the last 25 years have radically altered the financing of public schools and the roles of the State and local school boards. The 1978 passage of Proposition 13 removed the authority of local district governing boards to generate their own revenue through the levy of local *ad valorum* property taxes as well as dramatically reducing the amount of revenue realized from local property taxes overall. As a consequence, it significantly increased the role of the State in the financing of public schools and largely severed the fiscal link between local voters and their schools. Concerned about the schools' ability to attract adequate funding in competition with every other state General Fund-supported public program and service, voters approved Proposition 98 in 1988, which amended the state constitution to guarantee a minimum funding level for public K-14 education.

Propositions 98 and 13 also had a tremendous impact on the California Community Colleges. Like the K-12 public schools, community college districts previously derived the majority of their funding from local property tax revenues and had local authority to levy property taxes within certain limits to offer programs and services responsive to community needs. Proposition 13 removed this authority and shifted the proportion of district revenue from approximately 60 percent local and 40 percent state funding to the reverse. The California Community College system was the only one of California's three public postsecondary education systems to be incorporated in the constitutional guarantee of minimal funding resulting from passage of Proposition 98.

The California Community Colleges system declined to join its California State University and University of California counterparts in opposing Proposition 98, in hopes that they would be able to stabilize and improve their funding. There were then 104 (now 108) community colleges in 1988, organized into 71 districts (now 72), and serving more than a million students from diverse backgrounds, with different languages, learning styles, levels of preparation, and needs. Despite this huge diversity in students served, the community colleges were, as a matter of public policy, funded at a level substantially below that of their California State University and University of California counterparts. This fact reflected state decisions to manage the costs of broad access to postsecondary education through the differentiation of function, differential funding, and coordination that were embodied in the 1960 *Master Plan for Higher Education*. In 1988-89, state funding per full-time equivalent (FTE) student for the three public postsecondary education systems is shown in Table 7, following:

Table 7
State Funding per FTE in Public Postsecondary Education, 1988-89

	California Community Colleges	California State University	University of California
1988-89	$2,708	$5,623	$13,106
Source: California Postsecondary Education Commission, Fiscal Profiles 2001, Displays 13-15			

Community college hopes for stable and adequate funding as a result of inclusion in the Proposition 98 guarantee of minimum funding did not materialize. Community colleges' share of Proposition 98 funding was expected to be roughly 11 percent of the guarantee, but they received this amount in only the first three years following adoption of the proposition (see Table 8, following). Instead, they have found themselves subject to a 'floating' funding commitment, with the needs of K-12 schools addressed first and the resulting balance allocated to the community colleges.

Table 8
Distribution of Proposition 98 Funding

Year	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
K-12	88.8%	88.8%	87.8%	89.0%	90.1%	90.3%	89.4%	89.2%	89.0%
CCC	10.9%	10.9%	11.8%	10.7%	9.5%	9.4%	10.0%	10.1%	10.2%
	1997-98	**1998-99**	**1999-00**	**2000-01**	**2001-02**				
K-12	88.8%	88.9%	88.9%	88.8%	88.8%				
CCC	10.3%	10.2%	10.0%	10.3%	10.3%				
Source: California Postsecondary Education Commission, Fiscal Profiles 2001, Display 11 *Note: California Youth Authority and Special State Schools received balance of Proposition 98 funds*									

California's approach to the financing of public postsecondary education remains primarily one of negotiating increases over the base budgets negotiated in previous years. The primary operations of the three systems are adjusted around several previously defined areas:

- COLA adjustments to their base budgets to reflect increases in cost of operations due to inflation;
- COLA adjustments to categorical programs in each system;
- Augmentations to increase compensation of faculty and other staff. Decisions about compensation increases for faculty are partially based on calculations of differences in the salaries paid by eight comparable institutions, in the case of University of California faculty, and 28 comparable institutions, in the case of the California State University faculty, conducted annually by the California Postsecondary Education Commission. There is no explicit state goal to pay faculty at or within a specific range of the average paid at the respective sets of comparison institutions;
- Enrollment growth, reflected in a negotiated marginal rate of funding. The marginal rate of funding is the negotiated amount of money required to add an additional

student to a classroom. When growth is significant, it does not adequately capture additional costs of facilities, support services, and personnel;

- Adjustments for special needs, such as additional energy costs resulting from the 2001-02 fiscal year energy crises;
- Capital outlay needs for deferred maintenance and new construction; and
- Research initiatives for the University of California.

In addition to these adjustments to the base budgets of the postsecondary education systems, the Legislature and Governor can also make adjustments based on state policy priorities, including expansion of certain academic programs; student outreach programs; professional development programs and services for teachers, administrators, and faculty; technology applications; and so on.

In recent years, all three systems have entered into partnership agreements with the Governor and Legislature to stabilize the portion of General Funds they receive annually. The California Community Colleges have established a Partnership for Excellence (PFE) program, in which they agree to exchange more data, on specific student outcomes tied to their mission and functions, for increased funding from the State. Originally billed as a 'pay for performance' program, the PFE has evolved into a mechanism to attract increased funding to the system. Both the California State University and University of California systems have entered into partnerships with the Governor over the past four years to essentially provide evidence of responsiveness to state policy priorities in exchange for stable funding, funding of enrollment growth, and a predictable inflationary adjustment to their base budgets. These partnership approaches have injected more civility into the annual budget process for postsecondary education and have reduced, but not eliminated, perceptions of a political spoils system of funding in which the University of California negotiates its needs privately with the Governor, followed by the California State University, with any remaining resources allotted to the community colleges.

Total financing for postsecondary education derives from state and local tax dollars, student fees, lottery funds, and other university funds. In 2001-02 an estimated $9.9 billion in General Fund monies and an additional $1.8 billion in local revenue were invested in postsecondary education to support public colleges and universities. The former figure represents 12.6 percent of the 2001-02 General Fund appropriations, a 0.9 percentage point increase over its counterpart in the 2000-01 fiscal year, in the third consecutive year in which the percentage of General Fund appropriations devoted to higher education has increased. It falls short of its counterpart in the 1972-73 peak, when the State invested 17.7 percent of all General Fund appropriations in higher education, but still represents a 157 percent increase in 2001-02 inflation-adjusted dollars from 1972-73 appropriations.[61]

Student resident fees and non-resident tuition charges are another major source of revenue for public postsecondary education. Resident student fees are established by the University of California Regents and the California State University Trustees, for their respective systems, with the concurrence of the Legislature, and directly by the Legislature in the case of the California Community Colleges. Further, the University of California Regents are authorized to

[61] CPEC. Op.Cit.

charge differential fees to resident students enrolled in certain graduate and professional programs. Each system's governing board is authorized to charge non-resident students tuition, defined as the full cost of instruction plus non-instructionally related costs charged to resident students. Total fee and tuition revenue generated by the three systems for the 2001-02 fiscal year is estimated at $3.01 billion. During the early recession years of the 1990s, increases in student fees were used as a mechanism to offset state and local funding's falling below stated needs, generating serious concerns about the impact of fees on college access for talented students from low-income families.

Lottery funds accounted for only $202 million of the funding available to support the basic operations of the three public postsecondary education systems in 2001-02. In addition, the community colleges generated funding from other sources totaling $88.7 million in 2001-02; the California State University generated funding from other sources totaling $1.6 billion, including federal funds, continuing education fees, and other revenues; and the University of California generated funding from other sources, excluding its organized research activities, totaling $6.8 billion, including self-supporting operations, interest income, and other revenues. In addition, the University of California manages a substantial organized research operation funded by state, federal, and private sources.

Overall, state and local funding, including systemwide student fees, accounted for approximately 25.7 percent of the University of California's total cost of operations, 65.9 percent of the California State University's total operations, and 95.6 percent of the community colleges' total operations, during 2001-02. These percentages change somewhat for the California State University and substantially for the University of California if the calculation is restricted to instructionally related activities. This fact reflects the differences in the missions and functions assigned to the three systems, as well as the fee structure permitted by state policymakers. Low fees have been deemed to be an essential component of broad access and hence community college fees have been kept low – currently $330 per year, the lowest of any public community or junior college system in the nation. Systemwide fees at the California State University have been set at $1,428 per year for the past three years, and systemwide resident student fees for the University of California have also remained the same for the past three years, at $3,429, ranking them below the average for comparable public universities nationally. To ensure that enrollment remains a viable choice for talented low-income students, the State has significantly increased its investment in state-supported financial aid programs over the past decade, increasing appropriations from $149 million in 1992-93 to more than $503 million in 2001-02. Senate Bill 1644 (Statutes of 2000), which instituted a guarantee of financial aid to all eligible high school graduates in 2000-01, accounted for a 34 percent increase in financial aid funding that year.

For nearly two decades, California's public school districts have paid for about 60 percent of the cost of constructing new school facilities and modernizing existing ones through property tax overrides and developer fees. The State has picked up the remaining 40 percent of school facility costs through the issuance of General Obligation bonds. These proportional shares represent the split for total school facility costs in the state (shares for individual districts could have ranged from zero to 100 percent for either partner). Over the years the State has developed a number of programs for the allocation of capital funds to districts, using a variety of criteria that include measures of school facility capacity, enrollment, and age of existing facilities.

A practice that has been most detrimental to some school districts is the allocation of capital funds on a first-come, first-served basis. Because of variations in district capacity to prepare complete applications for facility funding, and differences in availability of land for new construction, some districts have annually failed to secure funding badly needed for new construction and have accordingly experienced overcrowded schools and schools in a poor state of maintenance. This limited capacity has been worsened by the unpredictability of when the State would be able to make facility money available to districts, how much money would be available, and what rules would govern eligibility, impairing district ability to plan, build schools, and raise supplemental local capital funds.[62] The first-come, first-served approach to allocation of what limited capital funds are available has also meant that districts with the greatest needs have not necessarily received facility funding. This fact has prompted reliance on year-round education in some districts, some configurations of which have the disadvantage of fewer calendar days of instruction and of extending the length of instructional days to ensure that state-mandated instructional minutes minimums are met. It has also resulted in lawsuits seeking to reserve facility funding for high-need districts and to divert facility funding to districts that are unable to provide high-quality teaching and learning conditions due to inadequate facilities. It also underscores the importance of having a state entity, such as the State Allocation Board, develop and maintain a facility inventory for public schools to enable better monitoring of the age of school facilities, with the resulting data to be factored into state-level facility planning.

Meeting the facility needs of public colleges and universities also relies on a combination of state and local funding. Within public postsecondary education, only the community college districts have the option of raising local facility revenue through parcel taxes with the two-thirds approval of local voters. The California State University and University of California systems both rely on state appropriation of General Fund monies and issuance of General Obligation bonds to meet capital construction and modernization needs. Long range planning is hampered, as with the public schools, because the two university systems never know when or how much state facility money will be available. However, each systemwide office prepares and regularly updates long-range facility plans based on campus master plan capacity and estimates of enrollment demand.

The 1960 *Master Plan for Higher Education* established a process to guide the construction of new college and university campuses. The process requires each system that believes it needs to construct new campuses, to develop and present a supporting rationale for that conclusion to the California Postsecondary Education Commission (CPEC) for review and approval prior to allocation of General Fund dollars for that purpose. CPEC has prepared a set of review criteria that it uses to evaluate each application, and forwards each of its recommendations both to the Legislature and to the proposing system. Conceptually, the Legislature does not appropriate money for new campus construction without a positive, independently determined recommendation from CPEC; but recent free or near-free gifts of federal and private property, coupled with strong enrollment growth, have served to substantially influence CPEC's recommendations.

As a result of the weaknesses in the ways that California finances educational facilities, a number of agencies are offering alternative approaches to both financing facility construction and

[62] Elizabeth G. Hill, *A New Blueprint for California School Facility Finance*, (May 2001)

modernization, in the case of the public schools, and reviewing and allocating State facility funds for the public colleges and universities. These alternatives aim to provide greater flexibility, predictability, and timeliness in meeting facility needs of public education.

Overall, California is currently far from the approach to financing public education that the Joint Committee envisions. California continues to attract large numbers of people who choose to call this state home, and collectively they will place huge demands on our education system. We have an obligation to think creatively about ways to finance an education system that will be of consistent high-quality and that will provide the uniform conditions for teaching and learning necessary to enable all education providers to meet our expectations for student learning and to meet the needs of our diverse state economy. This section offers guidance in this area.

The Vision

In absolute dollars, California now invests more money in its public education system than any other state in the nation, by a considerable margin; but we also enroll considerably more students than any other state. We envision a system, however, in which we will be far less concerned about how California's investment compares to that of other states than we will about how well we are providing the resources we believe are necessary to make possible the education system we desire. Our annual appropriations for each level of education would be determined by our best estimates of what it costs to provide the educational resources that make a difference in promoting student achievement. We would fully expect all public schools, colleges, and universities to be efficient in their operations and use of public funds; but we would also realize that quality education is expensive. We would not expect public education to sacrifice effectiveness simply to achieve greater economy.

We would ground our educational goals in academic content standards and proficiency levels for student achievement, from preschool to lower division levels of postsecondary education. These academic standards would be reviewed on a regular cycle and adjusted as deemed appropriate for current and future state needs. We would use the findings of our own researchers and education providers, as well as those from other states and nations, to determine the components essential to the educational quality we envision, in which virtually every student would be prepared for success at each subsequent level of education and upon eventual transition to employment and/or postsecondary education, and to active participation in California society. We would affirm our belief that readiness for participation in California society would also prepare individuals for global involvement.

We would commit ourselves to providing adequate compensation, benefits, and working conditions that would position California to attract and retain education personnel with professional qualifications and attitudes that would match our vision of public education at all levels. We would modify our compensation schedules and reward systems to provide opportunities for increased compensation without requiring excellent teachers to leave the classroom or disproportionately devote their time to research unrelated to excellence in teaching and learning. We would earmark a modest proportion of state-funded research to advance our knowledge of what works in promoting learning and achievement among diverse student groups, in recognition of the fact that the greater public benefit derives from Californians who develop a disposition for learning and acquire from their educational experiences the tools of learning that enable them to continue to learn over a lifetime.

Our goals-based approach to financing public education would enable us to strike a better balance between state and local control over the use of education resources. The State would focus clearly on the academic achievement goals it wanted for all students and the resources necessary to achieve those goals, but would clearly understand that there is no single 'best way' to achieve those goals. We would therefore dramatically reduce state reliance on categorical allocation of funds. Rather, we would ensure that all education institutions had the base of funding determined to be adequate to achieve the goals established for them, and allow them to locally determine how best to use those funds to achieve the learner outcomes we expect. We would establish state standards for physical facilities, to ensure appropriate conditions for teaching and learning, and for teaching and administrative qualifications, to ensure all students are taught by qualified teachers. All education institutions would be run by educational leaders who understand how to maintain school cultures that are supportive of teaching and learning, knew how to evaluate achievement data, and emphasize continuous improvement. These educational leaders would also publicly report educational progress within their institutions to enable regular review and evaluation of both student achievement and institutional performance. The resources needed to gather and report appropriate data would be considered essential components of quality and would be built into the adequate base of funding.

All public schools, colleges, and universities would maintain an array of supplemental learning support designed to assist students in meeting the learning expectations we had for them at each level of public education. This support would include learning centers, academic tutoring, and supplemental instruction; it would also include use of technology to facilitate independent replication of problem solving, retrieval of lecture and/or lab notes after hours, accommodation of diagnosed disabilities, and embedded assessments to assist students in accelerating their learning. Professional staff would be available to assist students in grounding their learning in real-world contexts through service learning experiences, career exploration, internships, apprenticeships, and career and academic planning. These contextual learning opportunities, too, would be considered essential components and would be built into our base of adequate funding.

We would systematically upgrade and expand public education facilities through a combination of direct General Fund appropriations and issuance of General Obligation bonds. We would focus first on upgrading schools and colleges with the oldest facilities and with the facilities in the worst state of repair. Not only would this focus be both logical, and equitable to students and communities, it would contribute to satisfaction of our commitment to ensure that qualified teachers were available to teach students in every public school classroom, by ensuring they had modern, well-maintained campuses in which to teach. Like that of all states, California's economy would still be subject to good times and bad times. We would follow the advice of economists by using bonds to amortize the costs of facility construction and modernization, spreading their repayment across future generations whose children would derive the greatest benefits from the facilities. We would be mindful, however, that some of those future costs could be mitigated through direct appropriation of General Fund monies for facility needs when state revenues permitted, thereby avoiding financing costs to the State and on-going expenditures that would be more difficult to reduce during poor fiscal times.

We would reaffirm our state's long-standing commitment to providing Californians affordable access to public colleges and universities. We would adhere to the belief that students have an obligation to assume responsibility for paying a fair share of the costs of attending college. That share, after possible readjustments, would include health care, laboratory fees, intercollegiate athletics, and student services. Additional costs could be incurred by students who chose to reside on campus or park personal cars on campus. Any suggested increase in student fees would be based on increases in these costs and would be limited by changes in per capita family income. The State would assume responsibility for meeting increases in operational costs related to instruction and state-supported research. Changes in housing and parking costs would be annually communicated to students in writing and would be considered legitimate costs of attendance for which needy students could receive financial assistance, as would other costs used to determine mandatory student fees. During times of poor economic conditions, state policymakers would negotiate with the governing boards of each public system to limit any increases in student fees and to balance trade-offs between enrollment growth, compensation increases, and investment in other quality education components.

We would be obligated to be prudent in the use of public funds, even for as important a state investment as public education. We would seek to carry out this responsibility in several ways. First, we would actively encourage schools, colleges, and universities to build and maintain linkages with businesses throughout the state. Business would be not only a consumer of education products but a provider itself. Business could also be far more responsive to innovation and change than education institutions, and could serve both as a harbinger of what education institutions might need to be responsive to in their delivery systems and as a source of access to near state-of-the-art equipment, as businesses made wholesale shifts to accommodate the latest advances in technology. The State would provide certain incentives to businesses to engage in such partnerships with education institutions.

Second, we would seek to take greater advantage of the impressive array of private and independent schools, colleges, and universities within California. At the postsecondary level, we would continue a long-standing commitment to providing financial assistance to Californians who choose to enroll in independent institutions rather than public colleges or universities. We would incorporate private, proprietary colleges and universities into our education system to ensure that students who choose to enroll in such institutions would have access to comparable quality in educational programs, enrollment in which, in turn, would qualify them for need-based financial assistance from state and federal sources.

Finally, we would center coordination of California's education institutions in the California Education Commission (CEC). The combination of direct interaction with representatives of preschool, K-12, and postsecondary education sectors; access to data maintained by the state's education sectors; and a focus on long-term planning by the CEC would facilitate efficient use of public resources and avoidance of undesirable duplication. We would reaffirm our belief that differentiation of function is more efficient than redundancy in function among California's education providers. Our mechanism for coordination would reflect this belief.

Our vision of California's education system would be expensive but efficient. We would steadily improve our understanding of the relationship between component costs and the goals we adopted for public education. A portion of the research capacity of this state would be continuously focused on this relationship to guide state policymakers in making difficult funding decisions when the State entered poor fiscal circumstances. Our clarity of vision and understanding of the relationship between education goals and their costs would also guide reinvestment decisions when economic times improved, so that we would reinvest in things that matter most rather than simply attempting to restore cuts or unrealized gains of the past.

What is Needed?

Funding for the basic K-12 educational program in California currently is distributed to districts in amounts that are similar for each student in the state, with additional, specifically targeted funding provided through separate programs to meet exceptional student needs. Districts receive an amount for each student that reflects an average of the costs of education across many students, but that average amount is derived from historical levels of education spending established at a particular point in time, rather than from any calculation of the actual costs of education, then or now.

This Master Plan envisions a fundamental change from a traditional focus of California's K-12 financing system on equality of funding – assuring that nearly all schools receive similar dollar amounts per student – to one of adequacy, in which the essential components (personnel, materials, equipment, and facilities) necessary for an exemplary education are identified and provided. With this foundation of adequate resources for a high-quality education, schools and students would be truly accountable for meeting established standards of achievement.

> "While real per-pupil spending has increased steadily, as have efforts to enhance equity in spending, wide disparities still exist between groups of students."
>
> --W. Norton Grubb and Luis A. Huerta, 2001

Funding for postsecondary education, like that for K-12 education, is distributed in amounts that are similar for each full-time-equivalent (FTE) student enrolled in each public system, although the amounts vary significantly by system. State appropriations for public colleges and universities, for the most part, do not recognize the cost differences of different disciplinary programs, the costs of responding to varied student learning support needs, or the cost differences associated with format (lecture, lab, seminar, and so on.) and level (lower division, upper division, or graduate) of instructional delivery.[63] Because enrollment in postsecondary education is not a fundamental right like K-12 enrollment, and because nearly all postsecondary students are 18 years old or older, the State does not strive to meet the full costs of operations for public colleges and universities through direct General Fund appropriations. A

[63] State appropriations have averaged the cost differences of high-cost programs like nursing into the per FTE appropriations for each system. It also builds in cost differences associated with the different missions assigned to the CCC, CSU, and UC.

portion of the costs of operation for colleges and universities is met from federal and private grant funds, and another portion is met from fees charged to students. The State has a significant influence on the fees that are charged to students enrolling in public colleges and universities and, therefore, on the perceived accessibility and affordability of postsecondary enrollment for California's least-advantaged learners.

This Master Plan continues to support the goals embodied in the 1960 *Master Plan for Higher Education*, which promoted broad access, affordability, and choice for Californians. When this historical perspective is coupled with an emphasis on promoting student achievement at all education levels, we believe that this Master Plan should seek to establish a postsecondary education financing system that supports the goals of (1) Access; (2) Affordability; (3) Quality; (4)Choice; (5) Efficiency; (6) Cooperation; (7) Accountability; and (8) Shared Responsibility.[64]

Funding for the programs and services needed to foster school readiness in every child comes from a myriad of state and federal sources and is not easily reduced to an allocation formula per child. In many cases little or no public resources are expended on developing the readiness of young children; in other cases, considerable funds are expended. This Master Plan envisions consolidating multiple funding streams to improve the adequacy of funding, to ensure that all parents and families who desire it have access to the services that will enable them to help their children become ready to learn upon enrollment in school.

PreK-12 Education

California's current K-12 finance structure is complex and highly restrictive in its determination of both revenue generation and expenditures. The State appropriates a substantial portion of district revenues for specific purposes and in doing so encumbers districts with multiple requirements as to how those funds may be used. The result of this longstanding pattern is a byzantine structure of education finance, including many dozens of specifically targeted budget appropriations, that impedes educators' flexibility to meet the comprehensive needs of individual students (to whom those funds are targeted). Moreover, the complexity of this structure precludes community members at large from understanding how their schools are funded, thereby eroding their capacity to support their schools and divorcing them from school decision-making. We therefore believe that simplification of the PreK-12 finance system must be an objective of this Master Plan. To achieve simplification, it is essential that the PreK-12 finance structure be understandable by parents, educators, policymakers, and the general public; and it must be aligned with the instructional, governance, and accountability structures of the public school system.

[64] See recommendations contained in the final report of the Joint Committee's Working Group on Postsecondary Education Finance for further rationale for these financing goals.

Recommendation 44

The Legislature should direct a 13-member Quality Education Commission, consisting of business, parent, and education community leaders from throughout the state, to develop a California Quality Education Model (CQEM), to be consistent with the parameters set forth in this Plan, and use that model to determine an adequate level of funding necessary to support a high-quality education for every student enrolled in public schools, PreK-12.

Replacing the existing school finance model, the CQEM would provide the Legislature with the critical education components (see the Access portion of this Plan for a listing of the core quality components), related resources, and corresponding level of funding needed to provide the opportunity for every student to obtain a quality education based upon rigorous state standards. This information would allow the Legislature and the Governor to make more informed annual budgetary decisions about the level of resources available for education, and how those resources can be allocated to foster a world-class education system. It will also provide the beginnings of a meaningful context for shared accountability within a framework of flexible local control over the use of educational resources.

The Commission's work and the California Quality Education Model should reflect the policy goals and structure of this Master Plan. This model should include creating a guaranteed preschool allocation for all three- and four-year olds (and additional funding for 'wraparound' care and flexible support services for three- and four-year olds of low-income families) to provide school readiness services to them and their families through local School Readiness Centers. The Commission should be authorized to convene and consult expert panels for advice relating to research-based best practices that are most closely associated with high student achievement. The Commission should assure that the substance of the model fairly captures the diversity of California. To ensure timely implementation of this action and its future appropriateness for California, we also recommend the following actions:

> **Recommendation 44.1 – Within 12 months of its formation, the commission should submit its final report, encompassing the prototype model and the commission's findings and recommendations, to the Legislature and Governor. The Legislature should adopt the model as the basis for determining PreK-12 education funding for California.**
>
> **Recommendation 44.2 – The Quality Education Commission should continuously monitor, evaluate, and refine the California Quality Education Model, as appropriate, to ensure that its implementation provides adequate funding for high-quality education for all students at all schools.**

Recommendation 45

The Legislature should limit adjustments to the adequate base of funding to three types of categorical funding to reflect differences from the prototypes used in the California Quality Education Model.

Categorical programs provide resources to accommodate differences in student needs, for efforts to meet selected state policy goals, and to spur reforms in the delivery of educational services. The committee supports *appropriate* categorical programs and the purposes they serve, with the caveat that they should not be used to circumvent the intent embodied in adoption of a quality education model for financing public school operations. California is a very diverse state, and that diversity signals differences that must be addressed by targeting funds to selected districts and students. Further, the courts have affirmed the appropriateness of promulgating differences in funding based on students' needs. To forestall further proliferation of categorical funding, adjustments to base funding should be limited to those which accommodate district characteristics that are not under the districts' control, a limited set of student characteristics, and short-term initiatives. Therefore, we further recommend:

> **Recommendation 45.1 – The State should develop a K-12 school finance system that recognizes a limited set of differential costs, primarily geographic in nature, that are not under the control or influence of school districts, by establishing a *District Characteristics* adjustment.[65] The additional revenue provided to school districts in recognition of these uncontrollable cost factors would result in similar overall levels of 'real' resources.**
>
> **Recommendation 45.2 – The State should include in the K-12 school financing system block grants for allocation to school districts on the basis of *Student Characteristics* that mark a need for additional educational resources. Further, we strongly suggest that the adjustments in this category be limited to additional funding for special education, services for English language learners who have been enrolled in California schools for less than five years, and resources provided in recognition of the correlation of family income level with student achievement. (New programs in these areas should be tested and implemented through an initiative process, described in the following recommendation).**
>
> **Recommendation 45.3 – The State should establish a category of grants that would be clearly identified as *Initiatives*. These initiatives should be limited in duration, and serve one of two purposes:**

[65] District characteristic adjustments are intended to address such needs as transportation and weather challenges resulting from the geographic locations of school districts, rather than differences in the cost of living in different areas of the state.

- **Pilot and evaluate proposed new programs before they are implemented statewide. Once such a program were implemented statewide, the funding for it would be consolidated into the base funding for schools, or one of the two major categories of adjustments – student characteristics and district characteristics.**
- **Meet immediate, but temporary, needs for additional funding targeted to specific districts to mitigate the effects of transitory, and possibly unforeseen, shocks to the instructional program. For example, funding provided for programs specifically targeted to reduce the number of emergency permit teachers would be a high priority, but presumably time-limited, effort.**

Recommendation 46

The State should provide local school districts with options for generating revenue locally to supplement their adequate funding base (as outlined in recommendations 45 and 46), and should provide local community college districts the same options for generating revenue locally.

Historically, local communities provided the majority of school funding through locally generated revenue streams. Since the passage of Proposition 13, the State has assumed the role of providing the majority of school funding. Today, nearly 30 percent of public school funding still comes from local sources, and we believe that local communities should still share in this level of revenue generation to support an adequate base of education funding.

School and community college district governing boards could be more responsive to local educational needs, and could be held more accountable by local electorates for programmatic decisions, if they were able to generate revenues locally to supplement their adequate funding base. Districts currently have very limited ability to raise revenues locally. The bulk of 'local' revenue in the current financing system comes from the property tax, and property tax revenues allocated to local school districts are a dollar-for-dollar offset to state aid. Finally, property tax rates are set by constitutional and statutory provisions not subject to local control. Currently, school districts can receive locally raised revenue from a few previously authorized special taxes. School districts can, with approval of the electorate, impose a parcel tax; and they can participate in a local sales tax through a local public finance authority. Schools also raise funds locally through foundations and other parent-centered fundraising efforts. While these sources of revenue may be significant for some school districts and schools, they are limited in their application across the state.

It is critical to recognize that a meaningful local revenue option must link local revenues to those purposes that are best developed and resourced locally. In particular, we would caution that local revenues raised from an optional tax must not become a means of supplanting adequate basic educational funding that is a statewide responsibility. Consequently, local revenue options should not be available until the State has met its obligation to provide adequate funding to support high-quality education in every public school. Revenues raised from a local option tax must be available wholly at local discretion, to augment all other funds received for the educational program. With this caveat, we recommend the following additional options be provided to local school districts:

> **Recommendation 46.1 – The State should authorize school districts in counties where a majority of school districts wish to join together to propose to the electorate a sales and use tax increase, within the local option sales and use tax levy limitation, to take effect with the approval of the voters in a countywide election. Revenue would be divided among the schools on a population (per-pupil) basis, or as delineated in the tax measure. The State should provide for an equalization mechanism to enable a state-guaranteed tax yield, to ensure that each county voting to do so could raise the statewide average per-pupil amount that would be realized through the imposition of a given tax rate.[66]**

> **Recommendation 46.2 – The Legislature should approve a ballot initiative to amend the constitutional provisions governing the property tax, to authorize school districts that have voted for and been granted 'home rule' authority (see Recommendation 31), and all community college districts, to propose to the electorate a property tax override for the exclusive use of the public schools or community colleges. The State should assure a minimum, state-guaranteed yield per pupil through a statewide equalization mechanism to provide state financial assistance to communities where a self-imposed tax rate would not yield the minimum state-determined per-pupil amount for that rate.[67]**

Recommendation 47

The Legislature should direct an analysis of the feasibility of replacing the current funding model for school facilities with annual state per-pupil allocations restricted to assisting school districts in meeting their capital and major maintenance needs according to a long-term Facilities Master Plan adopted by each school district. State and local funding for capital outlay and major maintenance should be protected to prevent redirection of capital resources when other cost pressures arise and to protect the public's investment in major capital projects.

School facilities are an integral part of the package of resources necessary to provide a high-quality education for students. The first step in ensuring their adequacy is to determine the level of resources necessary to provide each student with an educational facility that supports a high-quality education. While specific criteria must be developed to determine and ensure adequacy for school facilities, there is no doubt that the current model of funding for public school facilities in California is unresponsive to the planning and funding needs of school districts, and,

[66] Because of the *Serrano v. Priest* provisions, it is important that the State take steps to ensure that districts successfully pursuing local revenue options would not generate fiscal conditions between districts that were grossly unequal and would result in inequitable opportunities to learn throughout the state.
[67] Ibid

therefore, results in the inefficient use of resources for facilities. In particular, reliance on state General Obligation bonds and the current method of allocating bond proceeds has created a system that has not been conducive to long-term planning for school facility needs at the local level, and that fails to 'leverage' or encourage the development of local sources of funding for school capital outlay needs. County offices of education, which provide essential services to special education and community school students, do not usually have access to local funding sources available to local school districts. Consequently, county offices of education should continue to receive allocations of state funding in amounts necessary to fully meet the needs of specific facility projects to support these programs.

Should this analysis suggest that changing California's approach to funding school facility needs to a per-pupil annual allocation is feasible, we are concerned that the transition to such a system not perpetuate existing inequities among schools. Students and teachers throughout the state should learn and work in facilities that will promote and support a high-quality education. We would therefore recommend that any transition incorporate the following actions:

Recommendation 47.1 – The State should require that first priority for capital funding allocations be given to meeting projected needs, taking into consideration historical patterns of student migration/mobility. After all school districts have achieved state standards of adequacy[68] for their facilities and the State has transitioned into a base per-pupil allocation mechanism, the commitment to equity should change focus from 'leveling up' to accommodation of special circumstances.

Recommendation 48

The State should create a statewide school facilities inventory system to assist state and local decision makers in determining short- and long-term school facilities needs.

It is not possible to do a credible job of estimating and developing plans to meet the costs of providing adequate educational facilities for all public education institutions, without having an accurate understanding of the age and condition of existing facilities. Under the current configuration of state entities, the State Allocation Board is the appropriate body to develop and maintain such an inventory on behalf of the State and to coordinate allocation of facility funds to public schools. Within the governance structure described in the Accountability section of this report, however, the California Education Commission, which would be responsible for planning and coordination, might ultimately evolve as the appropriate body to maintain such an inventory for all public schools, colleges, and universities. Based on testimony and recommendations received by the committee, we believe that a tiered approach to developing and maintaining needed facilities data is appropriate. Local districts and postsecondary education campuses have a responsibility to manage and maintain public education facilities in satisfactory condition, and should routinely gather, maintain, and update data that enable proper exercise of this responsibility. Regional education entities and systemwide offices of the public postsecondary

[68] The standards of adequacy referred to here are consistent with recommendation 20 in the Access section of this Master Plan.

education sectors have a responsibility to monitor district and campus compliance with state facility standards, and should inspect facilities and request data from local districts and campuses that would enable them to certify the condition of education facilities to the State on a regular schedule. The State should specify standards for education facilities that must be met or exceeded by all public education institutions. To facilitate diligent exercise of these complementary responsibilities, the State should determine the basic data needed to make necessary management, budget, and policy decisions, incorporating information contained in existing data collection reports maintained by school districts.

Postsecondary Education

California's current postsecondary education finance structure is based upon historical practices rather than an analytic model. It reflects different levels of General Fund allocation per full-time equivalent (FTE) student that, in part, reflect the differential missions and functions assigned to each sector with the adoption of the 1960 *Master Plan for Higher Education,* and different costs associated with program mixes and levels of instruction (for example, community colleges are prohibited from offering instruction at the upper division or graduate levels). Each of the three systems has developed additional capacity to generate fiscal resources independent of General Fund support, relying on contributions from alumni and wealthy patrons, as well as indirect funds generated from successful research activities of their faculty and other grants attracted by professional staff. The community college sector has less capacity to generate extramural funding and hence has a greater reliance on General Fund support. Its inclusion in the Proposition 98 funding guarantees has also proved to be a disadvantage, in that the fiscal needs of the public schools have been given a greater priority in the distribution of Proposition 98 funding than the community colleges needs – an artifact reflecting the constitutional right to attend a free public school described in the Access section of this Plan as contrasted with the statutory promise of access to postsecondary education. All three public postsecondary education sectors have had to struggle with the impact of increased student fees and institutional costs during periods of state economic exigency. California's continuous growth has also eliminated the prospect of providing free access to public postsecondary education, given other increasing demands on the General Fund. We believe that seeking to better determine how General Fund monies can be combined with federal and private funding to keep postsecondary education affordable to Californians who desire it and meet the costs of operations of public colleges and universities is an appropriate objective for this Plan.

Recommendation 49

The State should adopt policies to provide more stability for finance and to dampen the 'boom and bust' swings of state appropriations for postsecondary education.

In good financial times, the State funds the base budgets of public institutions according to certain agreements or annual negotiations, plus costs associated with projected enrollment growth. The State also provides additional support beyond this funding. In bad financial times, the State cuts base budgets by some negotiated amount, may reduce funds for additional enrollments regardless of demand, and allows student fees to increase substantially. This summary accurately describes funding of public postsecondary education over the past decade. Analysis, research, working group reports, and expert testimony offer no reliable alternative. Once the State has satisfied its commitment to provide an adequate base of funding to meet the basic operational needs of its public colleges and universities, additional allocations should emphasize one-time expenditures that can, if necessary, be more easily reduced in times of financial stress. The State should examine the adequacy of its approach to funding public colleges and universities in several respects to ensure that resources are adequate to preserve high-quality teaching and learning opportunities at all levels.

As with K-12 financing structures, we believe the State should maintain a long-term objective for postsecondary education financing of aligning the allocation and expenditure of monies with the actual costs of providing the educational services for which they are spent. The Joint Committee recognizes that this objective may be more difficult to attain for postsecondary education, in that each sector has multiple missions and functions to carry out, and that the faculty, academic support, instructional materials, and facilities employed at each institution are utilized differently to meet each or all of these missions and functions. Hence, assigning a percentage of their time/usage to various missions would be complex. However, the committee finds the proposition that the State should allocate funding to support lower division instruction at roughly comparable levels in all three public sectors of postsecondary education is attractive in several respects: it is consistent with our stance that quality educational opportunities should be available to all students enrolling in public colleges and universities and that state financing should reflect this commitment; it would provide substantial additional resources to community colleges, which serve students with the greatest range of preparation and learning support needs; and it might foster greater faculty collaboration and course articulation. However, pursuing this option could result in a substantial additional financial obligation for the State, which could threaten community college access during poor economic times and exert pressure to increase fees charged to community college students.

It has also been suggested that consideration be given to extending the California Quality Education Model (see Recommendation 44) to the postsecondary education sector. This suggestion is consistent with our vision of developing a coherent system of education, and would substantiate the recognition that education institutions serving greater proportions of students for whom additional services are necessary to enable them to reach common expectations require additional resources beyond the adequate base provided to every campus within each respective system. Such an undertaking would be substantially more complex than that required for developing a new funding model for public schools. These alternative approaches to financing postsecondary education may be appropriate for consideration, since they come closer to identifying the education components essential to quality education at the postsecondary level; but the financial implications of these approaches require that they be studied carefully before action is taken to implement any one of them. Examination of these options should also be accompanied by an analysis of their potential impact on student fee policy and financial aid requirements.

In a similar vein, disparities exist in state financing of California's public colleges and universities in several regards. First, definitions of what constitutes a full-time equivalent student (FTES) – the basis for student-driven funding allocation by the State – at the graduate level are not common for the California State University and University of California systems (15 units and 12 units, respectively), resulting in the generation of differential funding beyond that which occurs as a result of the differences in funding per FTES for each system. Second, the State engages in line-item financing of the central administrative office operations of the California Community Colleges, in contrast to its practice of providing overall system funding for the California State University and University of California systems – resulting in the Board of Governors' being financially precluded from effectively governing the community colleges. Finally, the University of California and California State University systems receive minimal support for applied research related to state policy priorities, such as effective teaching and learning practices, and have no reserve appropriated for research to address urgent state-determined priorities.

While much of the testimony and staff analysis on these points is interesting and, in some cases, compelling in nature, specific recommendations for long-term changes in postsecondary education financing are inappropriate at this time. Nonetheless, we believe that the following near-term actions should take place:

> **Recommendation 49.1 - The State should establish the California Community Colleges' share of overall state revenues guaranteed by Proposition 98 to K-14 education at 10.93 percent.**
>
> **Recommendation 49.2 - The State should analyze the appropriateness of modifying the current 'marginal cost' approach for funding all additional enrollments in public colleges and universities, to account for contemporary costs of operations, differing missions and functions, and differential student characteristics that affect costs in each sector.**
>
> **Recommendation 49.3 – The State should make an annual investment for state-supported applied research by public postsecondary education institutions, to be held in reserve to allow the State to address issues of urgent public priority, as identified by the Legislature and the Governor. Such investment and allocation should be consistent with the missions of the postsecondary education sectors.**

Recommendation 50

The Legislature and Governor should, after formal study of all relevant factors, determine and define how the costs of postsecondary education should be distributed among the State, the federal government, and students and their families, and thereupon design a new, fiscally responsible, and appropriately balanced student fee policy that would preserve access to higher education opportunity for all of California's students, particularly those from low-income and underrepresented groups.

California's traditional policy of retaining low fees for public postsecondary education should be re-examined in light of modern realities. The 1960 *Master Plan for California Higher Education* strongly endorsed low student charges, prohibited tuition (direct payment for instruction), and assumed that fees were the most important factor in steering young adults toward or away from college. That assumption discounted the impact of the costs of other factors, such as housing, transportation, child care, and various fees for materials, books, and supplies, all of which have been growing significantly.

Appropriate information is needed to guide any reform of the State's current fee structure and the development of any fee policy. Such information could also assist in determining how the costs of postsecondary education should be distributed among the State, institutions, the federal government, and students and their families. California has provided essentially tuition-free access to public post-secondary education, including very low fees for students enrolled in community colleges and comparatively low fees for students enrolled in the California State University and University of California systems. For a variety of reasons, including enrollment growth, economic uncertainty, and increased demand for limited General Fund dollars, the State should now consider a shift from a no- or low-fee system to a system of affordable fees, coupled with sufficient financial aid to assure fees are never a barrier to access for Californians seeking postsecondary education. California should strive for a fiscally responsible and equitable fee policy that would minimize and mitigate the creation of barriers to students from low-income and under-represented groups, and preserve access for all Californians. There is also benefit from state actions to limit substantial year-to-year increases in student fees, which research indicates have the greatest negative impact on students enrolling in community colleges.

Any change in fee policy should be complemented by a correlative change in financial aid policy that would recognize the overall costs of attending a postsecondary education institution in California. California should also continue its commitment to use state financial aid policies to encourage and enable students who want to pursue their postsecondary education goals at independent and private postsecondary education institutions.

Accordingly, we recommend the following actions:

> **Recommendation 50.1 – The State should adopt a student fee policy aimed at stabilizing student fees, such that, to the extent feasible, fees would increase in a moderate and predictable fashion when needed, and should resist pressure to buy out student fee increases or reduce student fees at the California Community Colleges California State University, and University of California systems during strong economic times. The State should adopt distinct student fee policies designed to address the unique needs and considerations of California's 2-year and 4-year public institutions.**
>
> **Recommendation 50.2 – State policy should allow additional fee revenue collected by community colleges to remain with each college, without a General Fund offset, whenever fiscal conditions compel fees to be increased.**

Recommendation 51

The State should maintain a need-based financial aid and scholarship program to assist students from low-income backgrounds to pursue their educational objectives in a California college or university.

Today, more financial resources are available to students than ever before to pay the costs of fees, room and board, and books, depending on students' financial circumstances and the kind of institution attended. These resources include federal and state need-based grants (Pell and Cal Grants), middle-income federal tuition tax credits, institution-based grant aid given by each college or university, and subsidized and unsubsidized loans to students or parents. The latter constitute a growing proportion of the financial aid available to students, and the type most often rejected by low-income students. California's Cal Grant program, the largest of its financial aid programs, originated as a scholarship program and has evolved over time into one that emphasizes both need and merit. Further expansion of this program should retain a high priority on the financial need of students, since meritorious achievement of students is recognized by admission to one of California's two 'selective' public universities or by admission to selective independent colleges and universities operating within the state.

Fiscal pressures resulting from a growing demand for General Fund support of public programs in a growing state, routine shifts in the strength of the state's economy, and steady growth in postsecondary education enrollment demand have fueled a shift from statewide practices of no or low fees to affordable fees. Notwithstanding these realities, California should continue its commitment to affordability for students enrolled in public colleges and universities. California should also continue its commitment to use its financial aid policies to encourage and enable students to pursue their postsecondary education goals at independent and private postsecondary education institutions. In addition, public postsecondary education institutions should be strongly encouraged to use institutionally based aid to ensure that low-income students enrolled in their campuses are not left with unmet need.

Accordingly, we recommend the following actions:

> **Recommendation 51.1 – The State should continue to emphasize financial need in the award of state-supported student grants and should continue to fund the Cal Grant 'entitlement' as defined in SB 1644 (Statutes of 2000). The State should assure outreach and distribution of information regarding financial aid to students from low-income families and under-represented groups.**
>
> **Recommendation 51.2 – The maximum Cal Grant amount awarded to students choosing to attend independent postsecondary education institutions should be reviewed periodically, but at least once every five years and, as needed, adjusted to maintain the estimated average General Fund cost of educating a student at the public four-year institutions of postsecondary education, including the average**

authorized student fees charged by the California State University and University of California systems.

Recommendation 51.3 – The State's financial aid policy should consider the role of institutional aid, maintaining flexibility in its use by higher education institutions, while holding the institutions accountable for its use in meeting the State's commitment to providing need-based financial aid.

Recommendation 51.4 – The Legislature should regularly review, and where appropriate update, state financial aid programs in order to ensure that eligibility requirements are consistent with contemporary needs of students.

Recommendation 52

The State should review its methodology for determining and funding facilities in California postsecondary education, and, as appropriate for each segment, make changes to emphasize multiple-use facilities, comprehensive space planning, sharing of space among institutions, and incentives to maximize other sources of capital outlay.

The California Postsecondary Education Commission estimates that by 2010 enrollment demand will total more than 714,000 additional students over the enrollment accommodated in public colleges and universities in 1998, and that an addition 78,000 students will likely seek enrollment in regionally accredited independent California colleges or universities. If California seeks to accommodate that demand by the traditional approach of classroom-based delivery on permanent campus sites, the renewal and repair costs of capital facilities that will be needed in public postsecondary education will be more than state government will be able to afford, necessitating use of non-traditional approaches.[69] Widely accepted estimates suggest that the annual cost to maintain the existing postsecondary education physical plant is almost $700 million per year and that an additional $821 million per year will be necessary, under the traditional approach, to build needed facilities to accommodate enrollment growth in the public institutions.

An additional concern is that neither the demand nor the capacity to accommodate that demand will be evenly distributed throughout the state. A more recent CPEC analysis of future enrollment demand in 11 regions of the state examined historical participation rates of recent high school graduates and adult learners at public colleges and universities located within their communities as well as elsewhere in California. Based on that analysis, only the colleges located in Los Angeles County will have the capacity to accommodate the enrollment demand expected in Fall 2004; and by 2010, no region of the state will have enough capacity within the existing campuses to accommodate the expected enrollment demand in community colleges. Within the California State University system, only those campuses located in the central coast and south coast regions of the state will have sufficient capacity to accommodate the expected enrollment

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[69] While the strongest surge of enrollments will occur through approximately 2010, there is no decline projected thereafter, so that the facilities constructed for additional enrollments will not be surplus.

demand, mostly at the two newest California State University campuses, CSU Monterey Bay and CSU Channel Islands. By 2010, these two regions will remain the only regions in the state where the California State University will be able to accommodate enrollment demand; but the excess demand for the system as a whole will increase nearly four-fold between 2004 and 2010.[70] A similar analysis for University of California campuses is underway.

Use of technology is increasingly being considered as a viable means to enhance teaching and learning, squeeze efficiencies from administrative operations, and reduce inequities in access to current knowledge by students throughout the state. Technology advances, especially the integration of multimedia in home education and entertainment, are part of the ordinary life of today's children – children who ultimately will move through public schools and enroll in a college or university within the state. Their exposure suggests that technology should be considered as an integral component of facility planning and strategies to share educational resources between and among educational institutions in the state. The confluence of increasingly sophisticated information technology and increasing numbers of students comfortable with the use of technology should also serve as an incentive for educators to think in terms of developing new teaching and learning models, mediated by technology, that are better than, rather than 'as good as,' traditional teaching and learning approaches.

While access to technology and use of the Internet have increased nationally, they have not increased for all groups. According to a recent report, the difference between Internet use in White households using the Internet and non-White households increased from 13 percentage points in 1997 to 20 percentage points in 1998.[71] The lowest level of access to computers and use of the Internet was found to be among poor, and Black, students living in rural areas. While higher income narrows the racial divide in access to and use of technology, it does not entirely eliminate the 'digital divide' for students in that socio-economic level. State facility planning must consciously take these facts into account as it seeks to assure access to various types of technology for all students and educators in the state.

Early Childhood Education

Recommendation 53

The State should develop and fund a per-child allocation model for financing early child care and education, sufficient to meet the new system's quality standards and organizational infrastructure requirements.

Today, young children and their families are served by a variety of agencies with various funding streams. Each has specific eligibility guidelines and requirements. This arrangement provides neither the level of funding nor the efficient coordination needed to ensure the well-being and

[70] California Postsecondary Education Commission, *Regional Higher Education Enrollment Demand Study*, (December 2001)
[71] Commerce Department, *Falling Through the Net: Defining the Digital Divide*, (1999).

school readiness of California's young children. California therefore needs to develop an equitable per-child allocation model for financing early child care and education. This model should include creating an allocation for all children, birth to kindergarten, to provide school readiness services to them and their families through local School Readiness Centers, and an initial allocation, to be phased in until it becomes a guarantee, to fund early child care and education services and flexible support services for all low-income families with children from birth to age three.

The allocation model also should fund the organizational infrastructure of the new early child care and education system, including professional development, to quality improvement and data collection, for better accountability. To accomplish these recommendations, we propose the following:

> **Recommendation 53.1 – The State should consolidate, under the California Department of Education, all child development funding sources, including those from the departments of Education and Social Services, and create new sources of revenue to augment existing funds.**
>
> **Recommendation 53.2 – The State should create a Financing Task Force to calculate the per-child allocation needed to fund high-quality early education services and organizational infrastructure for low-income newborns to three-year olds, and for school readiness services for families with children, from birth to kindergarten.**

Recommendation 54

The State should improve the availability, quality, and maintenance of early education facilities.

In the absence of explicit attention from policymakers, shortages of qualified facilities are likely to hamper expansion of preschool and early child care programs. Pressures will intensify as preschool programs expand toward universal access, although encouraging the participation of existing child care and preschool providers in state-approved programs will help.[72] However, as employers and individuals become increasingly aware of the benefits of providing high-quality child care and preschool opportunities in their businesses and communities, the State will have an opportunity to collaborate broadly to reduce the direct costs of building an entire network of facilities for providers. Specific actions needed to advance this recommendation include the following:

> **Recommendation 54.1 – The State should increase the number of school facilities serving young children.**
>
> **Recommendation 54.2 – The State should provide incentives to stimulate facility construction and development.**

[72] Committee on Economic Development, Preschool for All, p. 59.

Recommendation 54.3 – The State should provide incentives for employers to implement family-friendly policies geared to helping parents carry out their responsibilities for nurturing and facilitating the readiness of their children for success in formal schooling.

Shared Responsibility

California's system of public education has been one of the most respected in the nation and around the world, in large measure because of its commitment to access, quality, affordability, and choice. However, the expense of fully meeting all these goals, during times of strong enrollment demand and fluctuating tax revenues, is more than state government can meet alone. Realistically, the fiscal responsibility for providing broad access to high-quality public education has to be shared by state government, local communities, students and their families, and the businesses that employ high school and college graduates. California should encourage efforts to share facilities and instructional equipment between and among education institutions – public, independent, and private – as well as other governmental entities and community-based organizations. The State should also actively encourage collaboration between public educational institutions and private employers, particularly in the areas of technology, personnel exchanges, and loans of private employer personnel for part-time teaching assignments in public schools.

Recommendation 55

The State should take the lead in developing educational technology partnerships that include the public, private, non-profit, and for-profit sectors.

To develop effective use of and access to educational technology, the State should take advantage of all available resources. There are many organizations that have expertise in this arena. The State should draw on this expertise and be responsible for bringing together leaders in the field to develop 'cutting-edge' technology that can augment instructional delivery and facilitate the accomplishment of learning objectives. Many agencies have initiated a number of exciting applications of technology to enhance teaching and learning and to streamline administrative practices. Many of these initiatives have already been introduced by private sector businesses responding to compelling business needs, but they also have applicability for educational institutions. Others have been developed within the education sector and have application in a broader arena. A key consideration for the State is the extent to which education and business can collaborate to scale up their respective initiatives into a coordinated and complementary delivery system that would meet both educational and business needs for creating lifelong learners. Consistent with this objective, we also recommend the following:

Recommendation 55.1 – The State should encourage local education agencies to establish partnerships with utilities, telecommunication companies, software and

hardware providers, and others, to facilitate functional universal access to technology in all public schools, colleges, and universities.

Recommendation 55.2 – The State and local communities should establish incentives for joint development and use of school facilities, with cities and counties, including libraries, classrooms, other learning sites, and recreational and community space.

- **New construction should be linked to the community, and better links should be established with the community in existing schools.**
- **The facilities should be constructed in compliance with the uniform building codes applicable to other public buildings, such as libraries and government offices.**
- **Technology should be integrated and support distributed learning in these and other settings.**

Recommendation 55.3 – The State should provide incentives to encourage businesses to contribute to meeting the technology infrastructure and upgrade needs of public education institutions and the communities they serve.

Summary

California invests significant sums of money in public education. Determining whether this investment is adequate is difficult, due to the complex manner in which funds are allocated to schools. The State must make the financing of the public schools simpler, so that parents and policymakers alike can understand the extent to which the schools are receiving the resources needed, and more equitable, so that all schools receive the resources needed to provide high-quality education to all their students. In addition, ways must be identified to reduce the disparities in how funds are allocated to school districts for purposes of constructing and maintaining needed instructional facilities. The recommendations in this section of the Master Plan identify ways to systematically address those needs:

- Development of a California Quality Education Model to identify the key components of quality and assign an average cost to each component, for elementary, middle, and high schools;
- Dramatic reduction of the use of categorical funding as a means of providing adequate resources to schools, while providing an option for supplemental funding to schools serving higher proportions of high-need students; and
- Examination of the feasibility of modifying current capital outlay funding processes to distribute such funding to school districts on a per-ADA basis, and of creating a state facilities inventory to improve short- and long-term capital facilities planning.

The State must also strive to find ways to keep access to postsecondary education affordable to students and taxpayers over time. Stable and predictable financing of public colleges and universities is essential to those institutional efforts to effectively plan for and accommodate qualified students who apply, and to provide them a high-quality educational experience. It is equally important for students and their families to have some predictability in the costs of college attendance that they will be expected to bear. This Master plan provides clear direction on how these goals should be pursued. Further, the Plan strongly encourages collaboration among the various public, independent, and private postsecondary sectors as a means of achieving greater efficiency in the use of educational resources.